

BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA

DOCKET NO. 2005-34-W/S - ORDER NO. 2005-436(A)

SEPTEMBER 9, 2005

IN RE: Application of Haig Point Utility Company, Inc. for Approval of Adjustment in Rates and Charges.) AMENDED ORDER) APPROVING AND) ADOPTING) SETTLEMENT) AGREEMENT
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The above-captioned matter is before the Public Service Commission of South Carolina ("Commission") on the Joint Motion Requesting Approval of Settlement Agreement ("Joint Motion") filed by the Office of Regulatory Staff of South Carolina ("ORS"), Haig Point Club and Community Association, Inc. ("HPCCA"), and Haig Point Utility Company, Inc. ("HPUC") (hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party"). It is acknowledged that the parties to the Settlement Agreement are the only parties of record in this docket. The Commission's initial Order, Number 2005-436, approved the settlement agreement between the parties in this matter. As it did not contain a specified operating margin as required under S.C. Code Ann. Section 58-5-240 (H) (Supp. 2004), we hereby amend the initial Order to include one as specified below. (See pp. 4 and 6)

This matter was initiated on February 24, 2005, when HPUC filed an application for approval of an adjustment in its rates and charges for water and sewer services with the Commission. Settlement negotiations resulting in the agreement between the Parties

in this case were concluded on July 12, 2005, and resulted in the agreement signed by the parties on July 20, 2005. The Parties have all determined that their interests, as well as those of the general public, are best served by settling the dispute in this matter under the terms and conditions set forth below.

This matter was set for a hearing commencing on July 14, 2005, at the Town of Hilton Head Town Hall. At that time the Commission heard the testimony of local public witnesses concerning HPUC's request. The hearing was to be continued at the offices of the Commission in Columbia on July 21, 2005. Prior to that date, however, the parties reached a settlement agreement which was signed on July 20, 2005, and filed with the Commission that same day through a Joint Motion requesting Approval of Settlement Agreement reached among all the Parties. By signing the Motion, all counsel acknowledged their respective clients' consent to the terms of the Settlement Agreement. The Joint Motion provided that the parties all viewed the terms of the agreement to be fair and reasonable.

The hearing held before the Commission on July 21st therefore took the form of a settlement hearing. At the settlement hearing on July 21, 2005, ORS presented the testimony of Ms. Dawn Hipp. Ms. Hipp provided an overview of the settlement agreement and stated the opinion of the ORS that the agreement was in the public interest, would allow HPUC to continue to provide water and wastewater services to its customers, and would promote the conservation of water resources. HPUC presented the testimony of Mr. John F. Guastella who provided an overview of the complete system methodology used in the water rate design contained in the settlement agreement. Mr.

Guastella testified that one of the primary advantages of using the complete system methodology was to ensure that HPUC customers would not bear any risk in the success or failure of the development, but that this risk would be borne by the company shareholders. In response to a question from Vice Chairman Hamilton, Mr. Guastella stated that although he was not familiar with the Homeowners Association by-laws, he believed that it would not be possible for HPUC to force its customers to pay for operating losses or expenses of the utility through the assessment of additional or special homeowner's association fees.

By Commission Directive dated August 10, 2005, the Commission granted the Joint Motion of the parties and ordered that the Settlement Agreement and corresponding rates and charges be accepted into the record without objection. The rates for residential and commercial water, sewer, and irrigation are specified in Exhibit 1 to the Settlement Agreement which is attached to and incorporated as a part of this Order as Attachment 1.

We find that the rates agreed to by the parties are fair and reasonable and that such allow HPUC to continue to provide its customers with adequate water and wastewater service as well as to promote the conservation of water resources. In determining the fair and reasonable rates agreed to by all the Parties in this matter, the complete system analysis was used to develop proposed rates. The parties also reached an agreement as to performance bonds, records, complaints, and billings, as specified in the Settlement Agreement.

The Parties all agreed, and this Commission finds, that an increase in water and sewer rates is necessary in this matter. HPUC has not applied for any increase in its rates

since its initial rate filing was approved by this Commission in 1988. Since that time, HPUC's costs of providing service have increased so that it can no longer earn a fair return on its investment. The Parties therefore agreed and stipulated to certain rates and charges which we hereby approve and which are specified in Exhibit 1 to Attachment No. 1 attached hereto. We agree with the Parties that the rates and charges contained in the Settlement Agreement are fair and reasonable, allow HPUC to continue to provide its customers with adequate water and wastewater services, and promote the conservation of water resources. We approve the proposed combined Rate of Return of 7.60% as shown on Schedule C-1(Combined) of Exhibit 2 to the Settlement Agreement. We further find that the figures and amounts contained in the Agreement, and Exhibits attached thereto, result in an operating margin of 12.34% and hereby approve such an operating margin for the HPUC.

The Parties further stipulated, and we hereby approve, the use of the complete system analysis in the development of the proposed rates and fees. Exhibit 2 to the Settlement Agreement details the pro forma water billing and sewer billing analysis agreed to by the Parties which are hereby approved by this Commission.

The Parties agreed to, and we hereby approve, an increase in the performance bonds of HPUC and hereby set performance bonds in the amount of \$350,000 for water and \$350,000 for sewer. We further approve the requirement contained in the Agreement whereby HPUC shall be required to maintain accurate records of consumer service complaints and resolution of any complaints. HPUC is further required to make rates, rules, regulations, maps and plans available for public inspection within its service

territory. Finally, HPUC shall include language on customer bills concerning the customer's right to file complaints with the Commission and shall report all DHEC violations, as well as alleged violations, to the Commission.

HPUC has further agreed to, and we hereby order, that it shall refrain from making any application to this Commission for additional rate relief for at least twenty-four (24) months from July 18, 2005. This constraint shall apply both to HPUC as well as any new owner should HPUC be sold in part or in its entirety.

The Commission is satisfied with the information and statistics contained in the Exhibits to the Settlement Agreement and that the terms and conditions set forth in the Agreement are fair and equitable to the Parties as well as to the HPUC customers affected by the rates and fees approved by this Order.

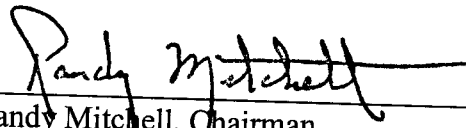
After careful review and consideration of the Joint Motion and Settlement Agreement, the evidence of record, the testimony of the witnesses and the representations of counsel, the Commission concludes as a matter of law that (i) approval of the Settlement Agreement is in the public interest; (ii) the residential and commercial rates and fees for both water and sewer agreed to by the Parties and as set forth in Attachment No. 1 attached hereto are both reasonable and prudent; (iii) performance bonds in the amount of \$350,000.00 for water and \$350,000.00 for sewer are fair and reasonable and in the public interest; (iv) HPUC, or any successor, shall be prohibited from requesting additional rate relief for a minimum of twenty-four (24) months from July 18, 2005.

IT IS THEREFORE ORDERED THAT:

1. The Settlement Agreement, including its attached exhibits, is attached hereto as Attachment No. 1, is accepted into the record without objection, and is incorporated into and made part of this Order by reference. Further, the Settlement Agreement is found to be in the public interest and constitutes a reasonable resolution of this proceeding.
2. The statement of proposed rates attached to the Settlement Agreement (Exhibit 1 thereto) is entered into the record of this case without objection. We find that the proposed rates are both fair and reasonable and will allow HPUC to continue to provide its customers with adequate water and wastewater services. We further find that these rates will promote the conservation of water resources.
3. The complete system pro forma water billing and sewer billing analysis at the proposed rates is attached to the Settlement Agreement (as Exhibit 2 thereto), and is accepted into the record without objection, and is incorporated into and made a part of this Order by reference. The Commission calculates from the information contained in this exhibit, and approves, an operating margin for HPUC of 12.34%.

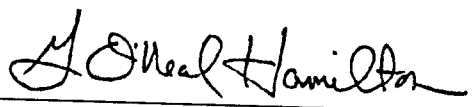
4. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:



Randy Mitchell, Chairman

ATTEST:



G. O'Neal Hamilton, Vice Chairman

(SEAL)

BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2005-34-W/S

IN RE:

Application of Haig Point Utility)
Company, Inc. for Approval of an)
Adjustment in Rates and Charges)
For Water and Sewer Services)
_____)

SETTLEMENT AGREEMENT

This Settlement Agreement is made by and among the Office of Regulatory Staff of South Carolina ("ORS"), Haig Point Club and Community Association, Inc. ("HPCCA"), Haig Point Utility Company, Inc. ("HPUC") (hereinafter collectively referred to as the "Parties" or sometimes individually as a "Party.").

WHEREAS, on February 24, 2005, HPUC filed an Application for Approval of an Adjustment in Rates and Charges for Water and Sewer Services ("Application") with the Public Service Commission of South Carolina ("Commission");

WHEREAS, the Parties to this Settlement Agreement are parties of record in the above-captioned docket and there are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions, most recently on July 12, 2005, to determine whether a settlement of this proceeding would be in their best interests;

WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree that an increase in water and sewer rates is necessary. HPUC has not applied for an increase in rates in the 17 years since its initial rate filing was approved in 1988. The current rates do not enable HPUC to cover its costs of providing service and earn a fair return on its investment. The Parties agree and stipulate that the statement of proposed rates attached hereto and made a part hereof as Exhibit 1 are fair and reasonable and allows HPUC to continue to provide its customers with adequate water and wastewater service. The proposed rates also promote the conservation of water resources.

2. The Parties further stipulate and agree that the use of the complete system analysis to develop the proposed rates is a fair and equitable method for the purposes of this proceeding and this settlement. The complete system pro forma water billing and sewer billing analysis at the proposed rates is attached hereto and made a part hereof as Exhibit 2.

3. HPUC agrees to follow the recommendations of ORS witness Dawn M. Hipp outlined in her direct testimony. HPUC agrees, among other things, to increase its performance bonds in the amount of \$350,000 for water and \$350,000 for sewer. HPUC shall maintain accurate records of consumer service complaints and resolution of any complaints. HPUC agrees to make rates, rules regulations, maps and plans available for public inspection within its service territory. HPUC agrees to include language on customer bills concerning the customer's right to file complaints with the Commission

and HPUC agrees to report all DHEC violations and alleged violations to the Commission.

4. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission Order issued approving this Settlement Agreement and the terms and conditions contained herein.

5. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair in any way their arguments or positions they may choose to make in future proceedings. If the Commission should decline to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty.

6. HPUC agrees that it will not file an application for additional rate relief for at least twenty four (24) months from July 18, 2005. HPUC agrees that in the event it sells all or part of the Utility during this twenty four (24) month period, it will specifically bind the new owner to this restriction as part of the sale.

7. This agreement shall be interpreted according to South Carolina law.

8. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of this Settlement Agreement. Facsimile signatures and email signatures shall be as effective as original signatures to bind any party. This

document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

WE AGREE:

Representing and binding the Office of Regulatory Staff:

Wendy B. Cartledge July 20, 2005

Florence P. Belser, Esquire
Shannon B. Hudson, Esquire
Wendy B. Cartledge, Esquire
Office of Regulatory Staff
1441 Main Street, Suite 300
Columbia, SC 29201
Phone: (803) 737-0863
Fax: (803) 737-0800
Email: wcartle@regstaff.sc.gov

WE AGREE:


Representing and binding the Haig Point Club and Community Association, Inc.:

John F. Beach
John F. Beach, Esquire
Ellis Lawhorne & Sims, P.A.
1501 Main Street, 5th Floor
Columbia, SC 29202
Phone: (803) 343-1269
Fax: (803) 779-4749
Email: jbeach@ellislawhorne.com

July 20, 2005

WE AGREE:

Representing and binding the Haig Point Utility Company, Inc.



Laura J. Evans, Esquire
Pratt-Thomas Epting Walker
16 Charlotte Street
Charleston, SC 29403
Phone: (843) 727-2226
Fax: (843) 805-6531

EXHIBIT 1

EXHIBIT 1

HAIG POINT UTILITY, INC.
STATEMENT OF PROPOSED RATES SETTLEMENT

RESIDENTIAL:

WATER:

Tapping Fees & 3/4 Meter box:	\$500.00
Base quarterly charge:	\$45.00
Consumption charge (per 1000 gallons):	
0 to 22,500 gallons per quarter :	\$2.00
Over 22,500 gallons:	\$2.00

SEWER:

Tapping Fees & service lateral:	\$500.00
Base quarterly charge:	\$80.00
Volumetric charge (per 1000 gallons):	
0 to 22,500 gallons per quarter:	\$0.96
Over 22,500 gallons:	\$0.96

IRRIGATION:

Tapping Fees & 3/4 Meter box:	\$500.00
Consumption charge (per 1000 gallons):	
0 to 18,000 per quarter:	\$2.00
18,001 to 60,000:	\$2.24
Over 60,000:	\$2.54

COMMERCIAL:

WATER:

Tapping Fees per hotel or Inn room:	\$250.00
Tapping Fees up to 1-1/2" meter:	\$500.00
Tapping Fees 2" or 3" meter:	\$1500.00
Tapping Fees for 6" meter:	\$3500.00
Larger meters on case by case basis	

Base quarterly charge:	\$63.00
Consumption charge (per 1000 gallons):	
0 to 22,500 gallons per quarter :	\$2.00
Over 22,500 gallons:	\$2.00

SEWER:

Tapping Fees per hotel or Inn room:	\$250.00
Tapping Fees 4" – 8" sewer pipe:	\$500.00
Base quarterly charge:	\$129.16
Volumetric charge (per 1000 gallons):	
0 to 22,500 gallons per quarter:	\$0.96
Over 22,500 gallons:	\$0.96

IRRIGATION:

Tapping Fees & 3/4 Meter box:	\$500.00
Consumption charge (per 1000 gallons):	
0 to 18,000 per quarter:	\$2.00
18,001 to 60,000:	\$2.24
Over 60,000:	\$2.54

All special conditions (tapping fees, backflow prevention, and system development charge) remain as in original tariff.

EXHIBIT 2

FINAL STIPULATED SETTLEMENT

Schedule B-1

HAIG POINT UTILITY, INC.

Water Rate Base Calculation

	<u>6/30/2004</u>	<u>Pro Forma Adjustment</u>	<u>STIP Complete System</u>
Plant in Service	\$1,731,215	\$1,124,203	\$2,855,418
Accumulated Depreciation	(106,504)	(791,925)	(898,429)
CWIP	1,116,695	(1,116,695)	0
Contributions in Aid of Construction	(353,000)	(982,000)	(1,335,000)
Accum. Amortization of CIAC	18,977	241,232	260,209
Net Plant	2,407,383	(1,525,185)	882,198
Working Capital (1/5th O&M)	60,144	706	60,850
Unamortized Balances	0	22,500	22,500
Rate Base	<u>\$2,467,527</u>	<u>(\$1,501,979)</u>	<u>\$965,548</u>

Sewer Rate Base Calculation

	<u>6/30/2004</u>	<u>Pro Forma Adjustment</u>	<u>STIP Complete System</u>
Plant in Service	\$2,628,049	\$43,650	\$2,671,699
Accumulated Depreciation	(133,578)	(783,754)	(917,332)
CWIP	0	0	0
Contributions in Aid of Construction	(111,000)	(269,000)	(380,000)
Accum. Amortization of CIAC	4,950	65,709	70,659
Net Plant	2,388,421	(943,395)	1,445,026
Working Capital (1/5th O&M)	24,774	583	25,357
Unamortized Balances	0	22,500	22,500
Rate Base	<u>\$2,413,195</u>	<u>(\$920,312)</u>	<u>\$1,492,883</u>

FINAL STIPULATED SETTLEMENT

HAIG POINT UTILITY, INC.

Schedule B-1
(W&S Combined)

Combined Rate Base Calculation

	6/30/2004	Pro Forma Adjustment	STIP Complete System
Plant in Service	\$4,359,264	\$1,167,853	\$5,527,117
Accumulated Depreciation	(240,082)	(1,575,680)	(1,815,762)
CWIP	1,116,695	(1,116,695)	0
Contributions in Aid of Construction	(464,000)	(1,251,000)	(1,715,000)
Accum. Amortization of CIAC	23,927	306,941	330,868
Net Plant	4,795,804	(2,468,580)	2,327,223
Working Capital (1/5th O&M)	84,918	1,289	86,207
Unamortized Balances	0	45,000	45,000
Rate Base	<u>\$4,880,722</u>	<u>(\$2,422,291)</u>	<u>\$2,458,431</u>

STIPULATED SETTLEMENT

Schedule C-1(W)

HAIG POINT UTILITY, INC.

Water Operating Statement

	Year-End 6/30/2004	COMPLETE SYSTEM (STIP)		
		6/30/2004 Proposed Rates	Adjustments	Pro Forma Present Rates
Operating Revenue:				
Residential	\$39,651	\$60,271	\$122,152	\$161,803
Commercial	10,023	15,135	528	10,551
Irrigation	48,749	87,942	57,696	106,445
Availability Billing	41,068	41,068	(41,068)	0
Total Revenues	139,492	204,415	139,308	278,800
Operating Expense:				
Wages & Benefits	20,055	20,055	127,401	(2,000)
Repair & Maint	47,990	47,990	30,955	145,456
Supplies	99	99	152	78,945
Outside Services	22,998	22,998	(12,590)	251
Telephone	2,259	2,259		10,408
Office Eqprnt Rental	490	490	1,349	2,259
Bad Debt	16,874	16,874	(11,298)	1,839
Power	19,419	19,419	29,826	5,576
Other Operating Exp	9,209	9,209	(2,466)	49,245
Total O&M Expense	139,393	139,393	163,329	6,743
				300,722
Depreciation	10,357	10,357	21,191	31,548
Amortization	0	0	10,000	10,000
Revenue Taxes	0	1,712	2,336	2,336
Property Taxes	0	0	14	14
Payroll Taxes	0	0	11,127	11,127
State and Federal Income Taxes	(14,799)	7,198	14,799	0
Total Operating Expenses	134,951	158,661	222,796	355,747
				0
Net Operating Income	\$4,540	\$45,754		(76,948)
Rate Base	\$2,467,527	\$2,467,527		\$965,548
Rate of Return	0.18%	1.85%		-7.97%
				\$82,857
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Schedule C-1 (S)

FINAL STIPULATED SETTLEMENT

HAIG POINT UTILITY, INC.

Sewer Operating Statement

	Year-End 6/30/2004	COMPLETE SYSTEM (STIP)		
		6/30/2004 Proposed Rates	Adjustments	Pro Forma Present Rates
Operating Revenue:				
Residential	\$38,495	\$72,310	\$118,056	\$156,551
Commercial	9,202	16,045	499	9,701
Irrigation	0	0	0	0
Availability Billing	41,068	73,009	(41,068)	0
Total Revenues	88,765	161,363	77,487	166,252
Operating Expense:				
Wages & Benefits	57,669	57,669	(14,697)	2,000
Repair & Maint	31,565	31,565	4,307	44,972
Sludge Disposal	0	0	0	35,872
Supplies	0	0	0	0
Outside Services	8,140	8,140	0	0
Telephone	1,411	1,411	0	8,140
Office Eqmnt Rental	0	0	0	1,411
Bad Debt	10,738	10,738	(7,413)	0
Power	8,689	8,689	21,539	3,325
Other Operating Exp	1,236	1,236	(1,315)	30,228
Total O&M Expense	119,448	119,448	2,421	(79)
			2,916	126,785
Depreciation	16,791	16,791	35,441	52,232
Amortization	0	0	10,000	10,000
Revenue Taxes	0	1,352	1,393	2,614
Property Taxes	0	0	589	589
Payroll Taxes	0	0	3,440	3,440
State and Federal Income Taxes	24	36,230	(24)	12,380
Total Operating Expenses	136,263	173,821	53,260	191,523
			16,517	208,040
Net Operating Income	(\$47,499)	(\$12,458)		\$104,030
Rate Base	\$2,413,195	\$2,413,195		\$1,492,883
Rate of Return	-1.97%	-0.52%		6.97%

FINAL STIPULATED SETTLEMENT

Schedule C-1 (combined)

HAIG POINT UTILITY, INC.

Combined Operating Statement

	Year-End 6/30/2004	Ref.	COMPLETE SYSTEM (STIP)			
			6/30/2004 Proposed Rates	Adjustments	Pro Forma Present Rates	Pro Forma Proposed Rates
Operating Revenue:						
Residential	\$78,147		\$132,581	\$240,208	\$318,354	\$542,462
Commercial	19,225		31,179	1,026	20,252	32,686
Irrigation	48,749		87,942	57,696	106,445	192,335
Availability Billing	82,135		114,076	(82,135)	0	0
Total Revenues	228,256		365,777	216,795	445,051	767,484
Operating Expense:						
Wages & Benefits	77,724		77,724	112,704	190,428	190,428
Repair & Maint	79,555		79,555	35,262	114,817	114,817
Sludge Disposal	0		0	0	0	0
Supplies	99		99	152	251	251
Outside Services	31,138		31,138	(12,590)	18,548	18,548
Telephone	3,670		3,670	0	3,670	3,670
Office Equipmt Rental	490		490	1,349	1,839	1,839
Bad Debt	27,612		27,612	(18,711)	8,901	15,347
Power	28,108		28,108	51,365	79,473	79,473
Other Operating Exp	10,445		10,445	(3,781)	6,664	6,664
Total O&M Expense	258,841		258,841	165,750	424,591	431,037
Depreciation	27,148		27,148	56,632	83,780	83,780
Amortization	0		0	20,000	20,000	20,000
Revenue Taxes	0		3,064	3,729	3,729	6,429
Property Taxes	0		0	603	603	603
Payroll Taxes	0		0	14,567	14,567	14,567
State and Federal Income Taxes	(14,775)		43,428	14,775	0	24,180
Total Operating Expenses	271,215		332,482	276,056	547,271	580,597
Net Operating Income	(\$42,958)		\$33,296		(\$102,219)	\$186,887
Rate Base	4,880,722		\$4,880,722		2,458,431	\$2,458,431
Rate of Return	-0.88%		0.68%		-4.16%	7.60%

FINAL STIPULATED SETTLEMENT

Schedule D-1

HAIG POINT UTILITY, INC.

Water Capital Structure and Rate of Return

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Debt	\$482,774	50.0%	7.50%	3.75%
Equity	<u>482,774</u>	<u>50.0%</u>	9.65%	<u>4.83%</u>
	<u>\$965,548</u>	<u>100.0%</u>		<u>8.58%</u>

Sewer Capital Structure and Rate of Return

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Debt	\$746,515	50.0%	7.50%	3.75%
Equity	<u>746,515</u>	<u>50.0%</u>	6.43%	<u>3.22%</u>
	<u>\$1,493,030</u>	<u>100.0%</u>		<u>6.97%</u>

